County of Roanoke, Virginia
Debt Policy

I. Introduction

The County of Roanoke recognizes one of the keys to sound financial management is the development of a debt policy. This need is recognized by bond rating agencies and development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy establishes the parameters for issuing debt and managing outstanding debt. It also provides guidance to administration regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, and the method of sale that may be used. The debt policy should recognize an obligation to full and timely repayment of all debt as an essential requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound position and that credit quality is protected. The debt policy is to be used in conjunction with the Operating and Capital Improvements Budget, the Capital Improvements Program (CIP), and other financial policies. Advantages of a debt policy are as follows:

- Enhances the quality of decisions.
- Rationalizes the decision-making process.
- Identifies objectives for staff to implement.
- Demonstrates a commitment to long-term financial planning objectives.
- Viewed positively by the rating agencies.

II. Purposes for Debt Issuance

The County may issue debt for the purpose of acquiring or constructing Capital Projects including buildings, machinery, equipment, furniture and fixtures. When feasible, debt issuances will be pooled together to minimize issuance costs. The County will prepare and adopt annually a five year Capital Improvements Program to identify and establish an orderly plan to meet the County's infrastructure needs. The Capital Improvements Program will also identify all debt-related projects and the debt service impact upon operations identified.

III. Guidelines for Issuing Debt

The County recognizes that the essential components of a debt policy are the limitations and guidelines set by the locality. The following guidelines reflect the County's philosophy concerning indebtedness:

- The County will not use short-term borrowing to finance operating needs, except in instances as described under Revenue Anticipation Notes.
- Long-term debt will be used in compliance with all aspects of the debt policy.

- The maturity of any debt will not exceed the expected useful life of the project for which the debt is issued.
- Each project proposed for financing through debt issuance will have an analysis performed for review of tax impact and future operating costs associated with the project and debt issuance.
- At a minimum, all issuances of Debt require approval and appropriation of the proceeds by the Board of Supervisors with additional approvals, if applicable, indicated in the entitled “Types of Debt/Structural Features”.

IV. Debt Limits

The County does not have any Constitutional or Statutory Debt Limits. The County does abide by the following self-imposed debt targets:

- Net Debt as a percentage of Assessed Value will not exceed 3.0%.
- The Net Debt per Capita will not exceed a ratio of $2,500.
- General Obligation Debt Service as a percentage of General Governmental Expenditures will not exceed 10%.

These ratios will be calculated each year in conjunction with the budget process and the audit.

V. Types of Debt/Structural Features

A. Bond Anticipation Notes

- The County may issue Bond Anticipation Notes (BANs) in expectation of General Obligation Bonds or Revenue Bonds when cash is required in order for the financed capital project to be initiated or continue or when long-term markets do not appear appropriate on a given date, but have a clear potential for improvement within 12 months.
- The County will issue BANs for a period not to exceed two years.
- No BANs will be rolled over more than one additional two year period.

B. Revenue Anticipation Notes

- The County’s Fund Balance goal of 6.25% of General Fund Revenues was designed to provide adequate cash flow to avoid the need for Revenue Anticipation Notes (RANs).
- The County may issue RANs in an extreme emergency beyond the County’s control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed.
- The County will issue RANs for a period not to exceed the one year period permitted under the Constitution of Virginia, Article VII section 10.

C. General Obligation Bonds

- The Constitution of Virginia, Article VII section 10, and the Public Finance Act provide the authority for a County to issue General Obligation (GO) Debt with no limit on the amount of GO Debt that a County may issue.

- The County may issue GO Debt for capital projects or other properly approved projects.
- All debt secured by the general obligation of the County must be approved by the Board of Supervisors and a public referendum, with the exception of Virginia Public School Authority (VPSA) Bonds and State Literary Fund Loans which do not need approval by referendum.

D. VPSA Bonds and State Literary Fund Loans

- School capital projects may be constructed with debt, either through VPSA Bonds or State Literary Fund Loans, and refunding bonds with preference given to accessibility and interest rates.
- Approval of the School Board is required prior to approval by the Board of Supervisors.

E. Revenue Bonds

- The County may issue Revenue bonds to fund enterprise activities or for capital projects which will generate a revenue stream.
- The bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements.
- Cost of issuance, debt service reserve funds and capitalized interest may be included in the capital project costs and thus are fully eligible for reimbursement from bond proceeds.

F. Capital Acquisition Notes and Leases

- The County may issue short-term notes or capital leases to purchase buildings, machinery, equipment, furniture and fixtures.

G. Moral Obligation Debt

- The County may enter into leases, contracts, or other agreements with other public bodies which provide for the payment of debt when revenues of such agencies may prove insufficient to cover debt service.
- Payment of such moral obligation debt service will be done when the best interest of the County is clearly demonstrated.
- While such moral obligation support does not affect the debt limit of the County, the amount of bonds issued with the County's moral obligation should be controlled in order to limit potential demands on the County. There is no legal obligation, but the County is placing its good name and reputation on the line and there is every expectation that the County would make good any deficiencies when a default exists.

VI. Credit Objectives

The County of Roanoke will strive to maintain or improve its current bond ratings. The County will also maintain relationships with the rating agencies that assign ratings to the County's various debt obligations. The rating agencies will be kept abreast of the County's financial condition by providing them with the County's Comprehensive Annual Financial Report (CAFR) and the Operating and Capital Improvements Budget.

VII. Authorized Methods of Sale

The County will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions. Debt obligations are generally issued through competitive sale. If the County and its financial advisor determine that a competitive sale would not result in the best outcome for the County, then a negotiated sale, private placement or other method may be chosen.

VIII. Selecting Outside Finance Professionals

The County of Roanoke will retain external finance professionals to be selected through a competitive process. The finance professionals will include, but may not be limited to, the financial advisor, bond counsel and the underwriter. The finance professionals will assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The length of the contracts will be determined by the County. The selection process will require experience in the following: municipal debt, diverse financial structuring, and pricing municipal securities.

IX. Advance Refunding of Debt

The County may issue advance refunding bonds in accordance with federal tax law. An advance refunding may be issued to reduce outstanding principal, reduce interest costs, to eliminate restrictive debt covenants, or in the event of financial emergencies or hardships. In determining whether to consider an advance refunding, the County will carefully consider whether further savings can be achieved by deferring the sale to a later date. The goal is that the savings (net of all issuance costs and any cash contribution to the refunding) will be at least 3 percent, unless otherwise justified by the County.

X. Disclosures

The County will maintain the following practices to ensure proper disclosures:

- The County will maintain good communications with bond rating agencies to inform them about the County’s financial position by providing them the County’s Comprehensive Annual Financial Report (CAFR) and Operating and Capital Improvements Budget.
- The County will follow the National Federation of Municipal Analysts and Government Finance Officers Association policy of full continuing disclosure.
- The County will disclose the preceding ten fiscal year’s debt ratios in the Comprehensive Annual Financial Report.
- The County will disclose an estimate of the subsequent five fiscal year’s debt ratios in the Operating and Capital Improvements Budget with an analysis of the impact, if any moral obligation debt would have on the debt ratios.